

Audit Report

Health Delivery, Inc.
WIC Program

October 1, 2001 – September 30, 2002



Office of Audit
Quality Assurance and Review Section
December 2004



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF COMMUNITY HEALTH
OFFICE OF AUDIT
400 S. PINE; LANSING, MI 48933

JANET OLSZEWSKI
DIRECTOR

December 20, 2004

David R. Gamez
President/CEO
Health Delivery, Inc.
3605 Davenport
Saginaw, Michigan 48602

Dear Mr. Gamez:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the Health Delivery, Inc. WIC Program for the period October 1, 2001 through September 30, 2002.

The final report contains the following: description of agency; funding methodology; purpose and objectives; scope and methodology; conclusions, findings and recommendations; Statement of MDCH Grant Program Revenues and Expenditures; and corrective action plans. The conclusions, findings, and recommendations are organized by audit objective. The corrective action plans include the agency's paraphrased response to the Preliminary Analysis, and the Office of Audit's response to those comments.

Thank you for the cooperation extended throughout this audit process.

Sincerely,

A handwritten signature in cursive script that reads "Debra S. Hallenbeck".

Debra S. Hallenbeck, Manager
Quality Assurance and Review
Office of Audit

cc: Alethia Carr, Director, WIC Division
James B. Hennessey, Director, Office of Audit
David Figg, Audit Manager, Office of Audit

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DESCRIPTION OF AGENCY

Health Delivery, Inc. ("Agency") is organized as a not-for-profit agency, under the provisions of 501(c)(3) of the Internal Revenue Code. The Agency's Administrative Office is located in Saginaw, Michigan. The Agency operates under the legal supervision and control of its Board of Directors.

The Agency serves more than 20,000 individuals throughout 12 counties in lower Michigan. The Agency currently operates two dental centers and four medical centers as well as mobile dental and medical services and migrant and seasonal farm-worker clinics. Program services provided by the Agency include: Dental, Family Practice, Hospitalist (Hospital Rounds Specialist), OB/GYN, Maternal/Infant Support Services, Pediatrics, X-Ray, Mammography, Laboratory Services, Women Infants and Children (WIC) Supplemental Food Program, and other Health & Nutrition Programs.

FUNDING METHODOLOGY

The Agency receives funding from various sources including: U.S. Department of Health and Human Services, U.S. Department of Agriculture, U.S. Department of Housing and Urban Development, Family Independence Agency, Federal Emergency Management Agency, Private Contributors, and from grant programs administered through the Michigan Department of Community Health (MDCH). MDCH grant funding is reimbursed monthly, based on Financial Status Reports, in accordance with the terms and conditions of the grant agreement and budget.

Grant funding from MDCH for the WIC Program is federal funding under federal catalog number 10.557, and is first source funding, subject to performance requirements. That is, reimbursement from MDCH is based upon the understanding that a certain level of performance (measured in caseload established by MDCH) must be met in order to receive full reimbursement of costs (net of program income and other earmarked sources) up to the contracted amount of grant funds prior to any utilization of local funds.

PURPOSE AND OBJECTIVES

The purpose of this audit was to assess the WIC Program internal controls and financial reporting, and to determine the MDCH share of WIC Program costs. The following were the specific objectives of the audit:

1. To assess the Agency's effectiveness in establishing and implementing internal controls over the WIC Program.
2. To assess the Agency's effectiveness in reporting their WIC Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles.
3. To determine the MDCH share of costs for the WIC Program in accordance with applicable MDCH requirements and agreements, and any balance due to or due from the Agency.

SCOPE AND METHODOLOGY

We examined the Agency's records and activities for the fiscal period October 1, 2001 to September 30, 2002. We performed our review procedures in October 2003. Our review procedures included the following:

- Reviewed the most recent Health Delivery, Inc. Single Audit report for any WIC Program concerns.
- Completed the internal control questionnaire.
- Reconciled the WIC Program Financial Status Report (FSR) to the accounting records.
- Reviewed a sample of payroll expenditures.
- Tested a sample of expenditures for program compliance, and policy and approval procedures.
- Reviewed indirect cost and other cost allocations for reasonableness, and an equitable methodology.
- Reviewed building space/lease costs for proper reporting and compliance with Federal Requirements.
- Reviewed WIC equipment inventory and general Agency equipment inventory records.
- Reviewed WIC coupon inventory controls.

Our audit did not include a review of program content or quality of services provided.

CONCLUSIONS, FINDINGS AND RECOMMENDATIONS

INTERNAL CONTROLS

Objective 1: To assess the Agency's effectiveness in establishing and implementing internal controls over the WIC Program.

Conclusion: The Agency was effective in establishing and implementing internal controls over the WIC Program. During our review, we did not note any material internal control exceptions.

FINANCIAL REPORTING

Objective 2: To assess the Agency's effectiveness in reporting their WIC Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles.

Conclusion: The Agency generally reported their WIC Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles. However, we noted findings related to the cost of space computation (Finding 1) and an allocation of an employee's leave time (Finding 2).

Finding

1. Improper Computation of Cost of Space

The Agency's cost of space computation was based on an estimate rather than actual in violation of Office of Management and Budget (OMB) Circular A-122.

Reported space cost of \$17,710 included in Other Expense was computed using the number of square feet occupied by WIC multiplied by an estimated cost per square foot, rather than using actual cost.

The computed space costs must be based on OMB Circular A-122 guidance for determining the building depreciation or use allowance, and operating and maintenance cost.

For fiscal year 2001-02, the difference between estimated and actual cost was not significant, and did not affect WIC grant funds.

Recommendation

We recommend that the Agency compute reported space cost based on actual, allowable expenses based on Federal guidelines.

Finding

2. Improper Allocation of Employee Leave Time

The Agency improperly charged the WIC program the full cost of leave time for one employee who also works on other programs in violation of OMB Circular A-122.

OMB Circular A-122, Attachment B, Section 8 g (1) states that compensation paid to employees during periods of authorized absences from the job, such as vacation and sick leave, are allowable provided such costs are absorbed by all organization activities in proportion to the relative amount of time or effort actually devoted to each.

The extent of the problem was minimal for the WIC Program because it involved only one employee part of the time. However, the error could be more significant in other Agency programs that have several employees that split their time between programs.

Recommendation

We recommend that the Agency charge payroll leave costs to all benefiting programs.

MDCH SHARE OF COSTS AND BALANCE DUE

Objective 3: To determine the MDCH share of costs for the WIC Program in accordance with applicable MDCH requirements and agreements, and any balance due to or due from the Agency.

Conclusion: The MDCH obligation under the WIC Program for fiscal year ended September 30, 2002, is \$323,970. The attached Statement of MDCH Grant Program Revenues and Expenditures shows the budgeted, reported, and allowable costs. The audit made no adjustments affecting WIC grant program funding.

Health Delivery, Inc.
WIC Supplemental Food Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/01 - 9/30/02

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$323,970	\$323,970 ¹	\$0	\$323,970
Local Funds	\$0	\$120	\$0	\$120
TOTAL REVENUES	\$323,970	\$324,090	\$0	\$324,090
EXPENDITURES:				
Salary and Wages	\$219,644	\$230,773	\$0	\$230,773
Fringe Benefits	\$61,390	\$52,692	\$0	\$52,692
Equipment	\$0	\$0	\$0	\$0
Contractual	\$0	\$0	\$0	\$0
Supplies	\$11,245	\$15,406	\$0	\$15,406
Travel	\$5,000	\$2,515	\$0	\$2,515
Communications	\$0	\$0	\$0	\$0
Space Cost	\$0	\$0	\$0	\$0
Other Expense	\$26,691	\$22,704	\$0	\$22,704
Indirect Cost	\$0	\$0	\$0	\$0
TOTAL EXPENDITURES	\$323,970	\$324,090	\$0	\$324,090

¹ Actual MDCH payments. MDCH funding was provided on a performance reimbursement basis.

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: Improper Computation of Cost of Space

The Agency's cost of space computation was based on an estimate rather than actual in violation of Office of Management and Budget (OMB) Circular A-122.

Recommendation: Compute reported space cost based on actual, allowable expenses.

Comments: The Agency agrees with this finding.

Corrective Action: According to management's response, an analysis is in progress to allocate space costs to WIC based on actual space used and actual cost.

Anticipated

Completion Date: Fiscal year beginning October 1, 2004.

MDCH Response: No comment.

Corrective Action Plan

Finding Number: 2

Page Reference: 3

Finding: Improper Allocation of Employee Leave Time

The Agency improperly charged the WIC program the full cost of leave time of an employee who also works on other programs in violation of OMB Circular A-122.

Recommendation: Charge payroll leave costs to all benefiting programs.

Comments: The Agency agrees with this finding.

Corrective Action: According to management's response, the payroll allocation process has been changed to allocate all employee leave time based on their schedules.

Anticipated

Completion Date: October 1, 2004.

MDCH Response: No comment.